# A Land of Northern Lights, Cybercafes and the Flat Tax

By MARK LANDLER

TALLINN, Estonia - Estonia, one realizes after a few days in the abiding twilight of a Baltic winter, is not like other European countries.

The first tip-off is the government's cabinet room, outfitted less like a ceremonial chamber than a control center. Each minister has a flat-screen computer to transmit votes during debates. Then there is Estonia's idea of an intellectual hero: Steve Forbes, the American publishing scion, two-time candidate for the Republican presidential nomination and tireless evangelist for the flat tax.

**Fired with a free-market fervor and hurtling into the high-tech future, Estonia feels more like a Baltic outpost of Silicon Valley than of Europe.** Nineteen months after it achieved its cherished goal of joining the European Union, one might even characterize Estonia as the un-Europe.

"I must say Steve Forbes was a genius," Prime Minister Andrus Ansip declared during an interview in his hilltop office. "I'm sure he still is," he added hastily.

The subject was the flat tax, which Mr. Forbes never succeeded in selling in the United States. **Here in the polar reaches of Europe it is an article of faith. Estonia became the first country to adopt it in 1994, as part of a broader strategy to transform itself from an obscure Soviet republic into a plugged-in member of the global information economy.**

**By all accounts, the plan is working. Estonia's economic growth was nearly 11 percent in the last quarter - the second fastest in Europe, after Latvia, and an increase more reminiscent of China or India than Germany or France.**

People call this place E-stonia, and the cyber-intoxication is palpable in Tallinn's cafes and bars, which are universally equipped with wireless connections, and in local success stories like Skype, designed by Estonian developers and now offering free calls over the Internet to millions.

The flip side of Estonia's market ethos is a thinner social safety net than those in Europe's welfare states. **Opponents of the flat tax here - and there are some - say it has widened the divide between rich and poor, making Estonia less like its Nordic neighbors and more like the United States.**

Germans showed how allergic they were to the idea when Angela Merkel chose a flat tax advocate as her economic adviser. Antipathy toward him was so intense that political analysts say it probably cost Chancellor Merkel's party a clear majority in the German Parliament.

Yet the concept has caught on in this part of Europe. **Latvia, Lithuania and Slovakia all have a flat tax, while the Czech Republic and Slovenia have considered one. Tax policy, not support for the American-led war in Iraq, is the bright line that separates the so-called old Europe from the new. "Everybody dreams about a society with no inequality," Prime Minister Ansip said. "But the best policy is to have a strongly growing economy. With more prosperity we can increase social benefits."**

Taxes and welfare are not the only issues where Estonians seem to be diverging from Western Europeans.

People here are increasingly ambivalent about adopting the euro, even though the government still hopes to do so by 2007. The prime minister has been at odds with the European Commission, which has threatened to reduce its money for roads, bridges and other infrastructure. And Parliament recently voted by a wide margin to extend the deployment of the country's tiny contingent of troops to Iraq by another year.

The war, which has inflamed much of Europe, is not a divisive issue here. Only two Estonian soldiers have been killed in Iraq. "We know what it means to live under a dictatorship in Estonia," Mr. Ansip said. "We were always dreaming that help would come, and we did get help, especially from the United States."

Make no mistake: Estonia is grateful to be in the European fold. Membership in the European Union - and NATO - throws a security blanket over a land that has been subjugated repeatedly by foreign powers, most recently the Soviet Union.

With Estonia safely inside, though, Europe no longer looks like much of a draw. The euro, which once symbolized prosperity, is now viewed by many here as an invitation to higher prices. Inflation has already doubled since Estonia joined the European Union in May 2004. As a cautionary tale, people here point to Italy, where the cost of a haircut or a cup of coffee spiked after it retired the lira.

In any event, Estonia may miss its deadline of January 2007 for adopting the euro, because its inflation rate, close to 4 percent, is above the limit imposed by treaty. That would apparently not faze too many people. In a recent survey commissioned by the government, 54 percent of respondents said they did not want the euro, while 41 percent favored it.

"We have always had mixed feelings about joining the monetary union," said Marje Josing, the director of the Estonian Institute of Economic Research. "We have some experience of being part of a union."

Feelings toward Europe soured further after Britain, which holds the rotating presidency of the European Union, proposed reducing financing to new member states by $16.8 billion between 2007 and 2013. Estonia, Mr. Ansip said, is counting on the cash. [European leaders worked out a compromise on Dec. 17 that lessens the cuts, which mollified Mr. Ansip.]

The suspicion goes both ways. **French and German leaders complain that Estonia and other flat tax countries practice "tax dumping," using their rock-bottom rates to attract foreign investment. The solution, they say, is for European countries to harmonize their taxes, a proposal that gives most Estonians disquieting memories of their centrally planned past within the Soviet Union.**

Still, not everybody loves the status quo. The economics minister, Edgar Savisaar, is among those who believe that the flat tax has deepened class differences. A prime minister of Estonia under Soviet rule, Mr. Savisaar now leads a popular center-left party, which is in a shaky coalition with Mr. Ansip.

Reinstating a progressive tax, he said, would pay for education and for more aid to families and the elderly. With Estonia facing a national election in March 2007, Mr. Savisaar is expected to make that a political issue.

"What are the best societies to live in?'" asked Mr. Savisaar's top adviser, Heido Vitsur. "The best societies in the world to live in are the Nordic societies. We have to move in that direction."

Mr. Ansip is all for catching up with Finland and Sweden. But he says Estonia should not do it by abandoning a policy that he says helped propel the country this far. "I don't think it's the right thing for every country in the world," he said. "But it really suits Estonia."